

Realty Trust Review

March 10, 1975

VOL. VI, No. 5

Trust	VALUE GUIDE TO TRUSTS REVIEWED THIS ISSUE								
	Rel. Appeal	Port. Yield	-12Mo. Port. Last	Chng.- E.Next	Lever. Ratio	Price	Ann. Yield*	Div. Reinv.	Page
BankAmerica Rlty.	4	9.61%	13%	0%	3.14	\$6.13	4.9%	No	5
First Union	2	13.31	6	5	4.82	8.75	11.0	Yes	6
General Growth	2	14.54	20	15	3.86	16.63	6.9	Yes	7
Gould Investors	3	15.51	7	5	3.78	4.63	14.7	No	4
U.S. Leasing	4	13.65	3	0	1.89	4.88	0	Yes	8
AVERAGE		13.32%	10%	5%	3.50		7.5%		

*Based on annualized latest qtr., see text for BankAmerica Realty.

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SHORT-TERM TRUSTS: BANKS BENDING ON INTEREST BUT HUGE 1975 LOSSES STILL LOOM

A dramatic change in bank attitudes toward maintaining high interest rates on REIT revolving credits has emerged in the past two weeks, melting much of early February's harsh climate between REITs and their bank lenders. Banks are officially silent on the topic but it's apparent that top management got the message contained in Fidelity Mortgage's Jan. 30 Chapter XI bankruptcy filing: cut rates to levels that let REITs live or face further bankruptcies. Several events evidence the banks' new softer stance:

**Builders Investment Group* and its banks agreed to let BIG defer all interest due on its \$310.6 million revolving credit until July 31. Only exception is that banks may collect any excess cash that the portfolio generates above operating costs and subordinate interest. BIG had not paid cash interest for some months and the waiver cures this default, although interest at 130% of prime (now 10.7% at the current 8¼% prime rate) remains due.

**Great American Mortgage* is about to begin soliciting its subordinate debt holders to approve lowering interest on its \$271 million revolver (also in default) to the prime rate. More importantly, only excess cash (defined as what's left after operating expenses and subordinate debt interest) will be paid as interest; banks reportedly agree to accept a junior subordinate note for all unpaid interest, in effect putting bank interest behind all other GAMI lenders but ahead of shareholders. GAMI has one of the industry's most complex capital structures, and recently was sued by the Georgia Teachers Retirement System over alleged non-disclosure in a \$15 million private placement just before the REIT's problems surfaced publicly. Presumably this special arrangement is needed to keep creditors from toppling GAMI. Please note that GAMI's proxy hasn't been circulated yet and so there could be some further modification of the above terms.

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**Guardian Mortgage Investors* signed a \$339.7 million revolver at $\frac{1}{2}\%$ over the prime rate with no cash compensating balances. Six weeks previously trustees had approved signing at the then-standard 130% of prime; the Fidelity bankruptcy apparently triggered the rate reduction, which will save Guardian \$7 million (or \$2.33 per share) in interest the first year.

**First Mortgage Investors* may be nearing a modification in its \$400 million revolver setting a base rate in the 5%-6% range (vs. 130% of prime now), with all excess cash applied to this interest, the difference between cash paid and the base rate accrued as a senior note, and the difference between that base rate and 130% of prime carried as a contingent liability, payable only if earned. First Mortgage has been deferring interest since last fall.

**Chase Manhattan Trust* and *Continental Mortgage Investors* are also reported negotiating modifications of their \$700 and \$530 million respective revolvers right now and financial circles are betting both will come away with somewhat similar terms.

Interest reductions for these six construction trusts will effectively set industry norms for bank-REIT credit agreements because these six are among the industry's eight largest and most troubled trusts. They are the industry's major problems because of 1) their extremely high leverage with an average \$6 of debt for every \$1 of shareholders' equity and 2) above-average problem loans with 43% of total investments and 316% of shareholders' equity in non-earning status.

In effect the banks are bending over backwards to keep these short-term construction lending giants going and are willing to give a great deal on interest in hopes of getting back intact the \$2.45 billion in revolving credit at stake. In doing so the nine largest banks (see RTR, Feb. 10) holding about 51% of REIT revolvers are continuing to act to prevent any panic that might result from any chain-reaction bankruptcy filings by REITs. They are acting responsibly within the context of long-term relationships to help restore their customers to health.

Having said that, we must ask whether it's enough for you as a REIT shareholder. We don't mean to keep cudgeling the banks but we have very serious doubts that even zero interest by the banks would do more than extend the life of the construction and development lending mortgage trusts. Our extreme bearishness on the C&D trusts is based upon the steep rise in non-earning investments in recent months, a rise which shows no signs of abating. Here is the sorry record of rising non-earning investments for C&D trusts since our first survey last May, in millions of dollars:

	May '74	Sept. '74	Oct.	Nov.	Dec.	Jan. '75	Feb.
Non-earning invest. - Mil.\$	\$821	\$1,605	\$2,116	\$2,424	\$2,703	\$2,897	\$3,903
Percent non-earning	8%	15%	19%	22%	24%	26%	34%

We'd like to share the optimism of some REIT managers that this trend will reverse itself once housing starts turn upward. We cannot. Many, if not most, short-term REITs invested heavily in ambitious projects conceived at the crest of a record boom in both housing and the nation's economy. We estimate that half of all problem projects are in condominiums or land development projects in resort, recreation or pre-retirement secondary home areas. To survive and respond to any housing upturn, they need a return to a booming and energy-rich economy--conditions we do not see for two-three years at the earliest. Thus logic suggests that viable projects in REIT portfolios will be completed successfully, their construction loans repaid and proceeds used to reduce bank loans. This will leave sick properties on REIT books--and means you should expect even higher percentages of non-earning investments from these trusts.

Managers of the two trusts in Chapter XI, Associated and Fidelity, are talking about five-year workout programs to repay creditors--and admit candidly they may not be able to meet five-year schedules. New bank flexibility on interest means to us that banks have mentally shifted to their own internal five-year workout schedules.

PROJECTED 1975 EARNINGS FOR 52 LARGEST SHORT-TERM CONSTRUCTION REITS--Mil.\$

Assets	(As of 8-10/74)	Liabilities	Est. Income Statement - 1975
ST Mtgs.	\$9,540	Comm. paper \$ 434	Interest @ prime + 4% \$1,320
LT Mtgs.	619	Bank ST debt 5,087	Less: 1/3 non-earning 440
Prop. owned	317	Term & revolv. 2,282	Interest collected \$ 880
Acquired prop.	462	Fixed & subor. 1,005	Inter. expense @ 8% 733
Gross Inv.	\$10,939	Convert. debt. 321	Net interest \$ 147
Loss reserve	(267)	Tot. debt \$9,129	Adviser & oper. @ 1% (110)
Net inv.	\$10,672	Other liab. 154	Loss provision @ 2½% (280)
Other assets	977	Share equity 2,366	Acq. prop. holding @ 10% (50)
Assets	\$11,649	Total \$11,649	Projected loss \$ (293)

Frankly we doubt there'll be much shareholders' equity left by then. Our calculations (see above) point toward losses approximating \$500 million this year for the short-term trusts if interest holds at 130% of prime. Across-the-board reduction of interest to a prime rate we expect to average 8% would reduce these losses to about \$293 million. At a 6% prime the loss actually widens to \$390 million because portfolio yield would be falling rapidly toward fixed interest rates on convertible and subordinate debt. If prime averages 8% and the banks cut their interest rate on REIT loans to about 3-3/4%, short-term REITs could break even.

All this is because the focus has shifted dramatically from interest to the costs of dealing with problem properties. Major costs involved are those of restructuring many sick deals without foreclosure and holding and disposing of foreclosures. Under proposed new accounting rules, estimated costs of holding acquired properties would be charged against their carrying value; we've estimated these holding costs at 10% annually in the table above. Further we've estimated provision for future losses at 2½% of portfolio, vs. the 2% realized in 1974. We expect loss provisions to diminish in later years but expect holding costs to consume most of the reduction. Net interest will likely decline, unless the rise in non-earning assets is reversed. On balance we expect continued losses for five years, as shown below, unless some proposed changes in loss reserve accounting materialize.

Based on these assumptions, a broad-brush five-year workout plan for short-term REITs could look something like this, recognizing that major changes in any one of many variables could upset these projections materially (dollars in billions):

Year ending	Invest. Assets	Bank debt	Other debt#	Equity	Loss in year	We assume dollar value of non-earning investments will decline by 50% over the five years, although they rise gradually to about 55% of investments because total portfolio declines more rapidly. We also assume that foreclosures will rise to about 50%-60% of total non-earning investments, vs. only 12% now.
1974	\$11.0	\$7.5	\$1.7	\$2.4	\$-0.10	
1975	10.0	6.5	1.8	2.1	-0.29	
1976	8.0	4.5	1.9	1.6	-0.43	
1977	6.0	2.5	2.1	1.2	-0.42	
1978	4.0	0.5	2.3	0.9	-0.30	
1979	3.0	0.0	2.4	0.6	-0.30	

#Assumes some interest taken as subor. notes. Operating costs are held at 1% of portfolio and net interest is essentially breakeven. As with all averages, some short-term mortgage trusts will exceed these results by wide margins while the more highly leveraged ones may not do as well. Faced with these expectations, subscribers have already been asking these two questions:

1. Should we hold straight bonds or convertibles of the short-term REITs? Some of these carry extraordinarily high yields. For instance, Chase Manhattan Trust has three separate debt issues trading on the NYSE at current yields ranging from 13.8% to 20.3%, depending upon maturity, degree of subordination, etc. All sell at deep discounts and thus carry much higher theoretical yields to maturity. The Chase situation is not unlike that prevailing for many other short-term mortgage trusts. It seems quite clear to us that the

major banks in cutting interest rates (see above) are also saying they will assume the burden of keeping these large and well-sponsored short-term REITs alive. That means they will continue to fund interest on this debt because they cannot risk a suit by bond indenture trustees that would topple the REIT into bankruptcy. Thus many of these bonds, although speculative and low-grade, could be held by investors willing to assume high risk.

There's one caveat: if the REIT involved has bonds or other debt maturing within the five-year workout period discussed above, we'd forget all issues because at present there's no guarantee or hint the bank lenders will permit repayment of principal. Please note that repayment problems were key ingredients in both Associated and Fidelity bankruptcies. Please check capital structure of any REIT carefully before buying.

2. Would a Chapter XI bankruptcy really benefit shareholders? At the risk of simplifying a complex topic, we offer these further observations on our Feb. 10 discussion. Chapter XI is likely not feasible for any trust with large amounts or large percentages of publicly held debt. Most lawyers expect the SEC would almost surely petition to throw such trusts into Chapter X; in effect this rules out Chapter XI filing by most large and highly leveraged REITs. Chapter X is a court-supervised procedure that generally takes years and is quite expensive, perhaps 10% to 33% of assets involved; Chapter XI can be much cheaper and faster and the two trusts in Ch. XI are looking at 1%-3% maximum legal-related costs.

GOULD INVESTORS TRUST (4-5/8--ASE--GTR)--FY Sept. 30

Year	Port.	Port.Yld.	Non-earn. Inv.	Cash Flow	Div.	-Price range-	-Yld.range-
9/71	\$33.1M	13.20%	0.0%	\$0.76	\$0.36	\$8.50 - 4.88	7.4 - 4.2%
9/72	32.8	14.07	0.0	0.77	0.74	8.75 - 6.88	10.8 - 8.5
9/73	37.0	14.28	0.0	0.91	0.845	9.75 - 7.25	11.7 - 8.7
9/74	39.5	15.51	3.5	0.95	0.92	9.13 - 5.75	16.0 - 10.1

Portfolio dynamics: During the year ended Sept. 1974, the portfolio increased 7%. No definite plans for new portfolio additions are presently on the drawing boards but the trust is always investigating new properties. There may be modest growth in fiscal 1975. The portfolio is 78% real estate owned and 23% mortgages. There are 41 properties located in 14 states. The biggest representing about 15% of investments is an office building located at 370 Lexington Ave., N.Y., N.Y. containing 216,914 sq.ft. It has about a 5% vacancy factor. The portfolio also contains five apartment houses with 1,083 units (all are net leased), nine shopping centers with 807,600 sq.ft., six office and eight industrial buildings with 741,700 sq.ft. and eight free standing restaurants (Ponderosa Systems) with 416,643 sq.ft. The trust also owns about 44 acres of land. Occupancy at the shopping centers is good except for four centers in Mich. which were leased to Hartfield-Zodys. Hartfield filed under Chapter XI in Nov. 1974. The trust has been able to re-lease one of the four centers and is presently negotiating to re-lease the other three. Trust has non-accruals amounting to about \$1.4 million. Included in the non-accruals is one equity investment of \$400,000 for 3½ acres of land in Boca Raton, Fla. which were foreclosed when the rent was not paid. The remaining non-accruals are mortgages, three on land in Fla., one on land in N.Y. and a warehouse in Michigan.

Financing: Gould is funded 21% by capital and 79% by non-convertible debt. Capital of \$8.6 million is all equity with 1.18 million shares. Debt of \$32.3 million is 83% secured mtg. and 17% bank debt. About 13% of funds float with market rates. The trust has a \$5 million revolving credit with two banks plus about \$2 million in other bank lines. All properties owned except for the land have mortgages. Sponsor: Independent but trustees and officers as a group own about 31%. Results & outlook: After the year end in Sept., the trust declared two dividends of \$0.17 per share each payable in January and March of 1975. This would indicate an annual rate of \$0.68 per share, down 26% from fiscal 1974. Other than the non-accruals and the three centers leased by Hartfield-Zodys, the portfolio

appears sound. Trust's other major tenants are of good caliber and vacancies should not be a problem. The trust's ranking of "3" is being maintained as a stable if not exciting situation. (VCK)

BANKAMERICA REALTY INVESTORS (6-1/8--OTC--BRLTS) FY July 31

Quar.	Port.	Port.Yld.	Non-earn.Inv.	EPS Prim.	Div.	-Price range-	-Yld.range-
4/74	\$261.4M	11.06%	2.7%	\$0.50	\$0.50	\$24.50-20.00	10.0 - 8.2%
7/74	262.3	12.66	2.6	0.40	0.35	22.13-13.38	10.5 - 6.3
10/74	271.1	10.27	7.3	0.07	0.10	13.50- 8.00	5.0 - 3.0
1/75	276.4	9.61	16.3*	d2.03	0.30**	14.13- 4.75	6.3 - 2.1
d-deficit		**Special dividend.	*Incl. lower yielding inv.				

Portfolio dynamics: The portfolio, which in the past year increased 13%, should have little or no growth in the next twelve months. No new commitments are being made and existing commitments at January 1975 amounted to \$66.6 million. Investments by loan type are 33% equity, 21% construction and devel., 20% interim, 19% long-term, 6% second mortgages and 1% limited partnerships. In the next year, equity investments will be stressed while construction and development loans should decrease. By project type, equity investments are 36% apartments, 31% shopping centers, 20% office buildings, 7% hotels, 4% industrial buildings and 1% limited partnerships. Over 80% of equities are in Calif. Mortgage investments by project type are 40% apartments & condominiums, 20% shopping centers, 19% office building & commercial, 11% land and land devel. and 10% hotels. Mortgage loans are located in 16 states and Wash., D.C. with about half in California. At January 31, 1975, about 34% of short-term loans, or 7% of all investments, floated with market rates. In late January, investments totalling \$45.1 million or 16% of the portfolio were non-accruing or yielding less than their contractual rate. There are nine projects involved. The trust also reported that in February it sold an \$8.6 million non-accruing loan to its adviser. This is excluded from the \$45.1M of problem loans. Following are some of the problem investments. There is an \$11.0 million loan including fee ownership and a first & second mortgage on a hotel-office complex in Pasadena, Calif. Income here is recognized as received. The trust has a \$5.7 million first mortgage long-term loan on a completed apartment project in Denver, Colorado which is over 90% leased; income is recognized when received. There is a \$5.5 million construction loan on an apartment project in Queens, N.Y. The original builder overextended himself and a new builder is being sought. BankAmerica has a \$5.1 million second mortgage on the Westbury Hotel in San Francisco. Foreclosure proceedings were initiated in June 1974 but the borrower filed under Chapter XII in October 1974. There is a \$5.1 million construction loan on a condominium project in Oahu, Hawaii which is still under construction. The trust is also not accruing interest on a \$1.7 million land development loan in Venice, Fla. and a \$1.7 million subordinated land purchase on an apartment project in Atlanta, Ga.

Financing: This trust is funded 24% by capital and 76% by non-convertible debt. Capital of \$65.0 million is 93% equity with 3.55 million shares and 7% in 6-3/4% convertible subordinated debentures. Debt of \$204.5 million is 54% in commercial paper, 25% in a 10-year term loan, 14% in short-term bank lines and 7% mortgages. About 71% of funds float with market rates. In February, Moody's announced it will no longer rate the commercial paper of BankAmerica. The trust is still selling paper but at a slower rate. Bank lines amount to \$150 million (not including the \$50 million term loan). This is a \$2 million increase since October. Sponsor: BankAmerica Corp., largest bank holding company. Results & outlook: The deficit in the January quarter was caused mainly by the addition of \$8 million, or \$2.25/sh. to the loan loss reserve. The \$0.30 dividend was a special issued so the trust could maintain its status. It appears unlikely that another large loan loss will be taken. The reduction in the prime should help earnings since so much of the trust's funds are tied to market rates. The adverse effect of Moody's rating withdrawal seems to have been discounted and trust has sufficient bank lines to replace commercial paper. Bank lines, however, are more expensive than commercial paper. Although more disappointing than expected, shares have speculative recovery potential based upon ability of management to stem and manage increasing problem investments. Trust's "4" ranking is being maintained. (VCK)

FIRST UNION REAL ESTATE INVESTMENTS (8 3/4--NYSE--FUR) FY Oct. 31

Quar.	Port.	Port.Yld.	Non-earn.Inv.	Cash Flow	Div.	-Price range-	-Yld.range-
4/74	\$142M	12.04%	0%	\$0.28	\$0.24	\$11.88-10.00	9.6 - 8.1%
7/74	143	12.18	0	0.23	0.24	11.75- 8.75	11.0 - 8.2
10/74	149	13.31	1	0.30*	0.24	10.13- 6.50	14.8 - 9.5
1/75	151	NA	1	0.26*	0.24	8.75- 5.88	16.3 -11.0

*Excludes capital gains of \$0.13 & \$0.12

Portfolio dynamics: This equity trust added 6% to its holdings over the last year. These additions were four shopping center investments (Tenn., Iowa, Colo., and Tex.) and an office building in Indianapolis. The trust is in financial position to increase holdings from 3-10% without outside financing depending on deals that may be available and the mortgages thereon. While investments are all equity oriented, a portion of holdings sit in the form of second mortgage loans convertible into equity and construction loans also with equity options. Thus 82% of depreciated portfolio is straight equity and 18% is in loan form. Income contribution by property type was 70% office buildings, 24% shopping centers and 6% high-rise motels. Its office buildings contain 3.2 million sf in Indianapolis, Cleveland, Dayton, Pittsburgh, New York, Tampa, Atlanta, Shreveport and Los Angeles. Largest is the Union Commerce Bldg., 972T sf, and 55 Public Square, both prestigious in downtown Cleveland. Shopping centers provide 5.6 million sf of space in regional enclosed malls and free-standing department stores located in Pa., West Va., Tenn., La., Tex., Iowa, Minn., Wy., Colo., Ore., Wash. and Cal. Increased accent has been placed on shopping centers in recent years and convertible long-term loans for such properties will bring this category to 30% of income. This area is benefitting from the enlarged managerial staff of recent years and greater professional attention is being given to centers. To begin with, the buyers market of 1974 enabled the trust to make some attractive purchases. These were not large in number or size but reflect the continued care and conservatism exhibited in past years. The trust has stepped up its credit review program, more important during economically depressed conditions. The trust derives management control of its properties through its First Union Mgmt., Inc. whose shares are held in trust for FUR shareholders. The management company not only oversees daily operations but guides expansion of existing properties. No development work is undertaken on new properties. This arrangement has satisfied Internal Revenue requirements for trust passivity. The management company leases many of the trust properties from the trust. As a result of sales increases in shopping centers leased by the management company, rental income based on sales percentages increased 17% in 1974. Properties and loans have been relatively troublefree. Default on a \$1.4M loan on a shopping center in Portland, Ore. was resolved by First Union paying \$535T to the owner and foreclosing the mortgage. Now owning the center 100%, the trust is obtaining a 5.4% return. Further work out should occur with proposals from other majors for the center leases and expansion possible. While technically a low earning asset, it does not appear to be cause for concern. A \$2.1M loan on a seven-story office building in Santa Clara, Cal. went into default in Aug. 1974 and title was obtained. This investment is returning 9.9%. Office building occupancy at managed buildings increased to over 96% during 1974. Since most of the portfolio is equity or equivalent, only 7% floats with market rates.

Financing: The trust is funded 34% by capital and 66% non-convertible debt. Capital of \$53M is 32% convertible debentures and 68% equity with 3.94 million shares. Non-convertible debt of \$104M is 71% secured mortgages and 29% bank loans. Of total funds, 19% float. The bank loans are derived under a credit agreement and lines of credit which are not fully utilized. These lines, which have been carried at some cost, were reduced last year to save carrying charges. Funds are adequate for 1975 and 1976. Sponsor: Independent, self administered. Results & outlook: Cash flow and earnings have held up over recent quarters despite higher interest expense to carry mortgage loans. Greater return from the increased property portfolio was a sufficient offset. Office buildings have maintained their tenancies despite new product in most markets. These buildings offer competitive rates in older structures. Shopping centers have done well for FUR on a small scale. Thus far its tenants have held up on average in a difficult retailing environment. Turnover was said to be the usual of marginal retailers being replaced. Earnings look like a fair bet to improve this year and the dividend in force for the

last seven quarters should at least be maintained. The "2" ranked shares represent one of the soundest trusts providing modest if not dynamic growth and reasonable yield. The convertible debentures are also attractive for yield and possible appreciation. (BS)

GENERAL GROWTH PROPERTIES (16-5/8--NYSE--GGP) FY Sept. 30

Quar.	Port.	Port.Yld.	Non-earn.Inv.	Cash Flow	Div.	-Price range-	-Yld.range-
3/74	\$163.7M	15.09%	0.0%	\$0.28	\$0.26	\$18.50-13.13	7.9 - 5.6%
6/74	169.5	14.86	0.0	0.29	0.27	15.88-12.25	8.8 - 6.8
9/74	181.5	14.54	0.0	0.30	0.28	15.63-11.00	10.1 - 7.1
12/74	NA	NA	0.0	0.295	0.29	14.00-11.63	9.9 - 8.3

Portfolio dynamics: Holdings have grown rapidly averaging 40% annually over the past three years. Some easing in the growth rate is ahead and we are expecting gains of about 15% in invested assets for fiscal 1975. Projects under construction would maintain that rate through fiscal 1976. General Growth essentially is a high quality investment builder operating in REIT format. The bulk of new development activity is concentrated in enclosed mall shopping centers and the remainder is in apartments. Holdings were 60% shopping centers, 26% apartments, 9% motels and 6% office-commercial at the end of fiscal 1974. These holdings include 5,691 apartments primarily located in the Detroit, Houston and Des Moines, Iowa areas; 12 Holiday Inns with 1,602 rooms, located from New York to Texas; and 29 office and commercial buildings with 658,000 sq.ft., nearly all leased to national tenants like Allstate Insurance, IBM and F.W. Woolworth.

GGP concentrates upon developing and managing mall centers in the 250,000-750,000 sq.ft. range in medium-sized Midwestern cities (80-150,000 population is typical) with strong agricultural bases. Recent cities entered are Ames, Marshalltown and Muscatine, Iowa; Fayetteville, Ark.; and Galveston, Tex. In these cities GGP malls can generally dominate the market. All centers are anchored with major national or regional department stores which generally own their own space. GGP has attracted Younger Bros. and Sears, Roebuck to seven centers each; Montgomery Ward and F.W. Woolworth (including Woolco) to five centers each, and J.C. Penney, three centers. The trust develops its centers via a series of contracts with General Growth Companies, whose owners hold about 10% of trust shares but do not serve as trustees. These arrangements, required to let GGP retain its qualified REIT status, call for General Growth Management Corp. to advise the trustees and manage or operate all properties except motels and Detroit apartments and for General Growth Development Corp. to develop new properties on cost-plus contracts. These independent companies select potential center sites, do all preliminary work toward construction including local approvals, and then give the trust right of first refusal on the package; if accepted, the trust buys the site and arranges construction and permanent financing. The development company has compiled a remarkable record of bringing in construction within budget, even during recent inflationary bursts, thus avoiding major cost overruns. Because anchor tenants are signed before construction begins, the major risk to the trust is that mall space will not be rented. GGP has successfully rented its space over the years, although vacancies now are 4%, up from about 2% in the past year.

Operating shopping centers number 16 with GGP owning a net 4.47 million sf out of 5.58 million sf. They range in size from 700,000 sf Northpark Plaza in Davenport, Iowa to 97,000 sf Oak Park Plaza in Oak Park, Mich. Eight centers range upward from 380,000 sf. The fiscal 1975 construction program calls for three new centers and one addition to add 1.09 million sf, or 23%, to standing inventory. Four centers scheduled for 1976 opening will add 1.45 million sf, another 25% addition to space. Beyond that GGP controls 30 potential sites and has targeted 80 possible cities for centers. The 1975 program includes Oakpark Mall, 248,000 sf in Austin, Minn., a July opening; Sioux Empire Plaza, Sioux Falls, S.D., 515,000 sf, opening September, and Army Post Plaza, 280,000 sf in Des Moines, opening October. A 48,000 sf store is being added to the Muscatine (Iowa) Plaza. Leasing for the 1975 centers is going well and management expects about 95% leasing at opening; Oakpark is now 70% leased, Sioux Empire Plaza 85% and Army Post Plaza 80%.

GGP's portfolio represents one of real estate's purest inflation hedges. Rents in mall space are tied to retail sales through overage rent agreements, in effect linking rents with the Consumer Price Index. Overage rents provided about 10% of net cash flow last year. Nearly all leases also provide for pass-through of utility and other operating costs to tenants, providing another cushion to inflation.

Financing: Total funds of \$197.7 million at Sept. 30 were 21% capital and 79% debt. Capital of \$40.7 million is \$32.3 million of shareholders' equity with 5.67 million shares and \$8.4 million of 6-3/4% debentures convertible at \$16. Non-convertible debt totaling \$157 million is 68% in fixed-rate mortgages secured by operating properties; 19% in interim construction loans, and 13% in short-term bank loans. Sponsors: The trust is independently managed but two major sponsors are major shareholders. Younker Bros. holds about 13% of shares and the families of Martin and Matthew Bucksbaum, owners of the management and development companies, hold about 10%. Results & outlook: Earnings per share were \$0.24 in the December quarter, down slightly from the \$0.25 of the September quarter. Net cash flow per share slipped slightly to \$0.295/sh., vs. \$0.30 (actually \$0.298) in the September quarter and \$0.27 a year earlier. Higher amortization of mortgages and interest plus higher number of shares were principal reasons. With about 25% of total funds somewhat sensitive to interest rates, results should improve a bit in the March and June quarters. New center openings should add to results in later quarters and management projects net cash flow of \$1.25-\$1.28 and dividends of \$1.22-\$1.25 for fiscal 1975. The No. 2 ranked shares have moved up recently after a long period in which investors digested implications of slower growth and impact of the recession on results. They offer dividend stability and moderate growth for longer-term investors. (KDC)

U.S. LEASING REAL ESTATE INVESTORS (4-7/8--ASE--USE) FY Dec. 31

Quar.	Port.	Port.Yld.	Non-earn.Inv.	Cash Flow	Div.	-Price range-	-Yld.range-
3/74	\$78.9M	14.41%	0.0%	\$0.47	\$0.47	\$17.50-12.75	14.8 - 10.7%
6/74	75.7	16.37	0.0	0.52*	0.47	16.38-12.63	14.9 - 11.4
9/74	77.3	14.97	0.0	0.40	0.39	14.00- 8.00	19.5 - 11.1
12/74	77.3	13.65	17.6	0.00	0.00	12.13- 5.13	0 - 0

*Incl. \$0.03 per share gain on sale of property.

Portfolio dynamics: The portfolio which in 1974 increased 3% is 56% equity and 44% mortgages. This year, management expects a decline in the portfolio as mortgages will decrease. Property holdings should rise slightly. Equity holdings consist of 18 properties consisting of 61% office buildings, 19% land, 15% other, 3% apartments and 2% shopping centers. The seven office buildings contain 1.43 million sf and overall average occupancy runs about 90-95%. By project type mortgages are 40% apartments and residential, 34% other, 15% office buildings, 10% land and 1% shopping centers. About 60% of mortgages or 26% of the portfolio are tied to market rates. Interest is not being accrued on eight loans for \$13.6 million or 17.6% of the portfolio. The trust has a \$4.4 million constr., land and second mtg. on a completed 616-unit motor inn near Disney World, Orlando, Fla. The inn has suffered from low occupancy. A completed condominium in California with a \$2 million construction loan reports slow sales. This loan become current in Dec. but Jan. and Feb. interest was not paid. Non-accruing is a \$1.7 million first mortgage participation on a large apartment complex in New Jersey still under construction. Financial difficulties of the builder is the problem here, as with a \$1.5 million first mortgage loan on condominiums in Texas, still in construction. Slow sales halted payments on a \$1.3 million first mortgage loan on a 54-unit condo in Delray Beach, Fla. Low occupancy caused a \$1.1 million construction loan on a 178-unit motor hotel in Boosier City, La. to become non-accruing. Also problems are a \$0.9 million land loan on 432 acres in Atlanta, Ga. zoned for office and industrial use and a \$0.8 million second mtg. on a substantially completed shopping center in Nebraska.

Financing: U.S. Leasing is funded 35% capital and 65% non-convertible debt. Capital is all equity with 1.35 million shares while debt is 46% secured mtg. and 54% short-term bank loans. About 35% of funds move with market rates. Sponsor: U.S. Leasing International, a major industrial lessor. Results & outlook: The Dec. quarter deficit was caused primarily by a \$1.3 million, or \$0.97/sh. loss reserve addition. Possible new problem loans may cause further above-normal loan loss provisions. The decrease in mtg. loans will cause portfolio yield to drop. Shares retain a "4" ranking but have eventual recovery potential as equity portfolio and non-problem mtgs. provide book value well over current market. (VCK)